Recession-Proof Your Portfolio With This 1 Stock

Description

Recessions don’t occur often. There have only been five since 1970. Historically, they last three to nine months. But the swiftness, severity and unknown timing of recessions instill fear in every investor. Smart investors know that holding a few recession-proof stocks within their portfolios can eliminate some worry over the next inevitable downturn.

When a recession strikes, stocks focused on discretionary purchases take a major hit. However, there are some items we cannot do without during even the worst of financial times: food and medicine. Fortunately, **Metro Inc.** (TSX:MRU) provides both.

Outstanding earnings

During last week’s quarterly earnings call, Metro reported total sales of $3.7 billion versus $2.9 billion last year, which represents an increase of 27.7%. EBITDA came in at $294 million, up 41.1%. If not for higher transportation costs and a transportation strike, which was quickly resolved, the company believes results could have been even better. The stock is currently trading in the $50 range, near its all-time high.

Food business

Metro operates or services over 600 grocery stores in Quebec and Ontario under the banners Metro, Metro Plus, Super C and Food Basics. For the quarter, the company reported that same-store sales at its food retail outlets were up 4.2%.

During the past two years, Metro has been perfecting its online order system, a click-and-collect and home delivery service, for groceries in Quebec. Pleased with the results, the company is currently piloting the program with plans to roll out the service in Toronto soon, which is a much larger market. The company has been fine-tuning the system in preparation for the Toronto launch. The e-commerce site is being adapted for the city's buying preferences with changes to the language, menu and customer interface.

As the convenience of online grocery shopping gains popularity and the competition from retailers like **Amazon** heats up, Metro will need to act fast to stay ahead of the curve. There is significantly more competition in the Toronto market for online shopping and delivery than the company faced in Quebec. However, the growing demand for the e-commerce side of the grocery business represents significant opportunities for Metro.

The company is also tinkering with the meal kit business. According to CEO Eric La Fleche, the meal kit business is in the start-up phase. He said, "It's not an easy business. At the store level, we have done some pilots. We have some adjustments to make. It's a good system, but we have more work to do."

The meal kit business represents a tremendous opportunity for the company. But as La Fleche noted, there is a lot of work ahead for Metro if the company is to gain traction in this area and beat the growing number of competitors.

Pharmacy business

Metro operates 650 drugstores under the names Jean Coutu, Brunet, Metro Pharmacy and Drug Basics. The company reported pharmacy same-store sales grew by 1.1%. The largest increase was in the front registers of stores (not including prescriptions) with a 3.6% increase. Pure pharmacy sales declined slightly by 0.1%, which was mostly due to generic price reductions. Prescription count grew by 2.2%.

Last year, Metro acquired pharmacy retailer Jean Coutu. One of the legacy hold-outs from the acquisition, Francois Coutu, President of Group Jean Coutu, will be retiring from the company at the end of May. His retirement fulfills the contractual obligation of remaining at the company to ensure a smooth transition. He will be succeeded by Alain Champagne who was formerly CEO of McKesson Canada and brings a strong retail track record with stints at Frito Lay, a subsidiary of **PepsiCo**, and **Procter & Gamble**.

One of Champagne's main objectives will be the integration of retail and distribution facilities. The company expects to realize benefits from streamlining these operations during the latter half of 2020. Due to these efforts, the company is committed to a savings of $75 million within the next three years.

The bottom line

Investors should always be on the lookout for high-quality, low-risk stocks that can provide defense of their portfolio during a market downturn. Companies specializing in areas that will withstand a decline in discretionary spending do just that. For investors seeking to recession-proof their portfolios with select equities, Metro is an attractive choice.

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